



CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
DON NICKLES, OKLAHOMA
TRENT LOTT, MISSISSIPPI
OLYMPIA J. SNOWE, MAINE
JON KYL, ARIZONA
CRAIG THOMAS, WYOMING
RICK SANTORUM, PENNSYLVANIA
BILL FRIST, TENNESSEE
GORDON SMITH, OREGON
JIM BUNNING, KENTUCKY

MAX BAUCUS, MONTANA
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
TOM DASCHLE, SOUTH DAKOTA
JOHN BREAUX, LOUISIANA
KENT CONRAD, NORTH DAKOTA
BOB GRAHAM, FLORIDA
JAMES M. JEFFORDS (I), VERMONT
JEFF BINGAMAN, NEW MEXICO
JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
JEFF FORBES, DEMOCRATIC STAFF DIRECTOR

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

April 4, 2003

Paul B. Ginsburg, Ph.D.
President
Center for Studying Health System Change
600 Maryland Avenue, SW, #500
Washington, DC 20024

Dear Dr. Ginsburg:

The Senate Finance Committee held a hearing yesterday entitled, "Purchasing Health Care Services in a Competitive Environment." The hearing raised important questions regarding the cost-implications of adopting a competitive bidding model for Medicare. More specifically, the Committee focused on competitive bidding models employed by large health care purchasers such as the Office of Personnel Management, the Department of Defense, and General Motors.

My judgment is that the cost or savings associated with this approach would depend, in part, on the ability of private plans to negotiate lower payment rates than providers are currently paid under the traditional fee-for-service Medicare program. If private plans could negotiate lower rates than fee-for-service Medicare, there is a potential for savings. Conversely, if these plans could not negotiate lower payment rates, spending by the federal government for beneficiary care would be higher than under current law.

Any cost or savings associated with a competitive bidding approach would also be influenced by the ability of private health plans, such as preferred provider organizations (PPOs), to reduce excessive health care utilization. Many argue that the cost-containment tools employed by health plans today have the potential to reduce the excessive utilization associated with fee-for-service Medicare.

Quantitative data on these questions are difficult to obtain. I understand that the best data available to answer these questions may be the survey results that the Center for Studying Health System Change has collected from its series of community reports over the past several years.

Based on your research and these reports, I am writing for your assistance in answering the following questions:

- 1) What is the available evidence of private health plans' ability to negotiate lower provider payment rates than fee-for-service Medicare currently pays? Is there any evidence of excess capacity in the health care system that would enable private health plans to negotiate lower rates than Medicare fee-for-service?
- 2) How do private plans' ability to negotiate lower rates vary across the country?
- 3) What is the current trend of preferred provider organizations' (PPOs') ability to control and reduce their enrollees' health care utilization of hospital and physician services?

In the interest of including your answers to these questions as part of the Finance Committee hearing record, I am hopeful that you can provide a response by 5:00 pm, Thursday, April 10, 2003, the deadline for submitted comments.

Thank you for your attention to this request. I am certain that your research into these matters will inform the Committee's discussion on this very important topic.

Sincerely,

A handwritten signature in dark ink, appearing to read "Max Baucus". The signature is fluid and cursive, with the first name "Max" and last name "Baucus" clearly distinguishable.

Max Baucus